

## ATTACHMENT 1



# Grant Thornton

February 16, 2009

**Audit • Tax • Advisory**

**Grant Thornton LLP**  
201 S College Street, Suite 2500  
Charlotte, NC 28244-0100  
T 704.632.3500  
F 704.334.7701  
[www.GrantThornton.com](http://www.GrantThornton.com)

Chariton Valley Telephone Company  
Attn: Tina Jordan  
109 Butler Street  
Macon, MO 63552

Dear Ms. Jordan

Grant Thornton LLP (Grant Thornton, we or us) has been engaged to assist the Universal Service Administrative Company's (USAC) Internal Audit Division in its examination of recipients of High Cost Support Mechanism funds. We plan to conduct a compliance attestation examination of the Chariton Valley Telephone Company; Study Area Code (SAC) Number 196396 located in Macon, MO beginning the week of March 9, 2009. We anticipate that fieldwork for the examination will take approximately ten days; however, the efficiency of the examination will depend on the availability of your staff and the condition of the documentation made available prior to and during the course of the examination.

The examination will cover disbursements from the Universal Service Fund during the fiscal year ended June 30, 2008, related to the following:

<b>Funds Received</b>	<b>Dollars Disbursed</b>
HCL	\$5,131,728
ICLS	2,178,552
<b>Total</b>	<b>\$7,310,280</b>

A compliance attestation examination requires management of your organization to sign a letter acknowledging its responsibility for compliance with applicable requirements of Title 47 of the Code of Federal Regulations (C.F.R.) Part 54 Subparts C, D and K, Part 36, Subpart F and Part 32, Subpart B of the Federal Communications Commission's (FCC) Rules and Regulations for Universal Service Support for High Cost Support Mechanisms, as amended, related FCC

Orders and USAC implementing procedures (collectively, the Rules); and to make specific assertions relative to your organization's compliance with those Rules. Under *Government Auditing Standards* and AICPA Attestation Standards (Section AT 601), your organization should also perform an evaluation of the organization's compliance with the Rules to support your ability to make the assertions. A separate management representation letter will also be required to be signed by management at the end of the examination. The form of that letter will be discussed when the engagement commences.

For your information and use, the examination program is being managed by the following Grant Thornton personnel:

Name	Company	Position	Phone Number	Email
George Prince	Grant Thornton	Engagement Senior Associate	704.632.3532	<a href="mailto:George.Prince@gt.com">George.Prince@gt.com</a>
Annette Davidson	Grant Thornton	Engagement Manager	704.632.3527	<a href="mailto:Annette.Davidson@gt.com">Annette.Davidson@gt.com</a>
Chuck Lockwood	Grant Thornton	Engagement Manager	704.632.6823	<a href="mailto:Chuck.Lockwood@gt.com">Chuck.Lockwood@gt.com</a>

We have assigned a team to perform the examination and an individual from that team will be contacting you to discuss the examination and the timing of our visit to your location.

The examination will focus on the eligibility of your company for High Cost Support Mechanism funds and the accuracy of the information your company provided to USAC to request these funds. Included as Attachment A to this letter are two lists of documents that we will need in order to effectively perform the examination.

In addition, we are required to gain an understanding of your internal control environment relevant to your management of the High Cost Support Mechanism funds. Included as Attachment B to this letter is an internal control questionnaire to be completed and returned to us as part of the documents requested from you within three weeks of your receipt of this letter.

Please prepare and send Attachments A and B to the following address within three weeks of your receipt of this letter:

Grant Thornton LLP  
707 17th Street Suite 3200  
Denver CO, 80230  
ATTN: Nicole Julius  
(303) 813-3491

For us to perform our examination efficiently and effectively, please also provide the following:

- Office space and internet connectivity for five team members during our visit to your location. If possible, access to the office space should be for eight hours each day.
- Notice of any days that the building will be closed due to holidays or any other reason during our visit to your location.
- Advice on the dress code for your office.

Please recognize that we have equal access to request and view documents as does the USAC Internal Audit Department.

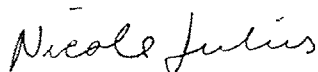
A member of the examination team will contact you directly to discuss the attached document requests, schedule an entrance conference and to address any questions or concerns regarding our examination prior to our arrival on-site. During the entrance conference, we will discuss the examination with management and the key individuals involved in the High Cost Support Mechanism process. Upon completion of our examination, we will conduct an exit conference to discuss the results of the examination and to obtain your signed representation and assertions letters.

The results of our examination and your responses will be presented in a draft report to USAC and the FCC Office of Inspector General (OIG). Upon review and approval of the report by USAC Management and the FCC OIG, the report will be distributed to the appropriate parties.

The following URL provides some additional information to assist your understanding of this examination: <http://www.sl.universalservice.org/reference/bestpractices.asp>.

If there are any matters or issues that you would like to make us aware of, or if you have any questions or concerns, please feel free to use my contact information as listed below.

Sincerely,



Nicole Julius  
(303) 813-3491

**Attachments:**

- A. Documents to be Provided to Grant Thornton on or Before March 9, 2009
- B. High Cost Support Mechanism Internal Controls Questionnaire to be Provided to Grant Thornton on or Before March 9, 2009



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Chariton Valley Telephone Company  
Universal Service Administrative Company  
Federal Communications Commission:

### Objectives:

Grant Thornton LLP (we or us) was engaged by the Universal Service Administrative Company (USAC) to conduct a performance audit of Chariton Valley Telephone Company (the Beneficiary) (Study Area Code No. 421864) in accordance with the performance audit standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. This engagement was designed to achieve the following objectives:

- To evaluate the Beneficiary's compliance with the Federal Communications Commission's (FCC) Title 47 of the Code of Federal Regulations (C.F.R.) Part 54, Subparts C, D, J and K in regards to affiliate transactions and regulated expenses reported to the FCC for general support expense, central office switching expense, cable and wire facilities expense and general and administrative expenses relating to total disbursements of \$7,310,280 for High Cost Loop and Interstate Common Line Support made from the Universal Service Fund (USF) during the fiscal year ended June 30, 2008; and
- To evaluate the related amounts of USF disbursements received by the Beneficiary based on the asset and expense values reported to the FCC by the Beneficiary for the accounts noted above for the fiscal year ended June 30, 2008.

**Scope:**

The scope of the engagement included the performance of such procedures we considered necessary in the circumstances to provide a reasonable basis for a proper assessment. The specific procedures performed were determined based upon discussion with USAC. The scope of this engagement included, but was not limited to the following:

- Reviewing certain supporting documentation received from the Beneficiary to determine whether the percentage of costs allocated by the Beneficiary to the affiliates and reported to the FCC for general support expense, central office switching expense, cable and wire facilities expense and general and administrative expenses for the fiscal year ended June 30, 2008 was proper; and
- Evaluating the monetary impact of disbursements received by the Beneficiary from the USF<sup>2</sup> relating to any unsupported cost allocations for the accounts noted above.

**Methodology:**

Background – The Beneficiary was unable to provide certain key financial information utilized in the development of the allocation factors and was unable to support the actual allocation factors utilized to allocate costs among its affiliates during the fiscal year ended June 30, 2008. In addition, the Beneficiary utilized several different allocation methods throughout the examination period.

Accordingly, the following procedures were specifically designed for the performance audit of Chariton Valley Telephone Company based on discussions with USAC:

- USAC requested general ledger detail relating to the material accounts as determined in our initial attestation engagement procedures. USAC also requested support for the allocation factors utilized in the allocation of expenses to Chariton Valley and its subsidiaries. Finally, USAC requested a detailed list of costs allocated between Chariton Valley and its affiliates.
- Based on the information received, a sample of transactions was selected and financial/supporting documentation obtained to trace and agree supporting documentation to the General Ledger Detail. This included the verification of allocation percentages utilized to allocate expenses between the different subsidiaries.
- If customary supporting documentation for an allocation was not available, existing supporting documentation which was available was used to recalculate the allocation of costs between affiliates based on a single acceptable method per FCC rules. Based on the allocation percentages calculated, we determined whether the percentage of costs allocated by the beneficiary to the affiliates was within an acceptable range.

- Each allocation was traced back to the general ledger detail and expenses included on the HCL and ICLS data collection forms submitted to USAC, NECA, and the FCC for the funding year ended June 30, 2008.
- We summarized the conclusions of our procedures below.

### Detailed Findings and Beneficiary Response

Finding No: HC\_FL\_121: F01

<b>Condition:</b>	The Beneficiary failed to use an appropriate method of cost allocation to distribute computer services expense to Chariton Valley Telephone Corporation (CVTC) which led to an over allocation of computer services (Account 6124) expenses to CVTC. The Beneficiary used revenue and net income which are not appropriate cost drivers to allocate computer services expense to Chariton Valley Wireless Services (CVWS), Chariton Valley Long Distance (CVLD), Chariton Valley Telecom Corporation (TCOM), Chariton Valley Communications Corporation (CVCC) and CVTC.
<b>Criteria:</b>	<p>Per 47 C.F.R. § 32.27 (c), for all other services provided by a carrier to its affiliate, the services shall be recorded at the higher of fair market value and fully distributed cost. For all other services received by a carrier from its affiliate, the service shall be recorded at the lower of fair market value and fully distributed cost.</p> <p>Per 47 C.F.R. § 64.901 (3)(iii), when neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and non-regulated activities.</p>
<b>Cause:</b>	The Beneficiary failed to use an appropriate method of cost allocation per FCC rules.
<b>Effect:</b>	The Beneficiary over reported computer services expense for CVTC resulting in an excess funding of \$225,332 in High Cost Loop and \$79,321 in Interstate Common Line Support funding.
<b>Recommendation:</b>	Grant Thornton recommends the Beneficiary implement policies and procedures to ensure that all cost which are allocated between affiliates are assigned based on an approved allocation method per FCC Rules and Regulations.

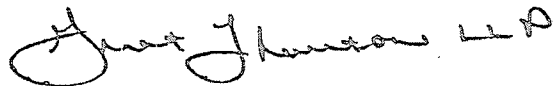
**Beneficiary Response:** *The Beneficiary has used an allocation method which is acceptable and appropriate and does not agree with the auditor on this item.*

**Grant Thornton  
Response:**

The computer services expense was allocated using a ratio of the average of annualized revenue and annualized net income. If the subsidiary had a net loss, the net income was considered zero and expenses were not taken into consideration. Per the FCC rules surrounding affiliate transactions and allocation of costs, it would not be appropriate for the Beneficiary to use Revenue and Net Income as factors in the determination of allocation percentages. When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and non-regulated activities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our performance audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our performance audit objectives.

This communication is intended solely for the information and use of Chariton Valley Telephone Company, the Universal Service Administrative Company, and the Federal Communications Commission and is not intended to be, and should not be used by anyone other than these specified parties.



Charlotte, North Carolina  
April 30, 2010





Universal Service Administrative Company

High Cost and Low Income Division

### USAC Management Response

Date: June 4, 2010

Subject: Improper Payment Information Act (IPIA) Audit of the High Cost Program of Chariton Valley, HC-FL-121, Follow-up Audit to HC-2008-206

USAC management has reviewed the IPIA performance audit of Chariton Valley ("the Carrier"), SAC 421864. The audit firm Grant Thornton has issued a recommendation in its follow-up audit report. Our response to the audit is as follows:

#### Finding

##### Condition:

The Beneficiary failed to use an appropriate method of cost allocation to distribute computer services expense to Chariton Valley Telephone Corporation (CVTC) which led to an over allocation of computer services (Account 6124) expenses to CVTC. The Beneficiary used revenue and net income which are not appropriate cost drivers to allocate computer services expense to Chariton Valley Wireless Services (CVWS), Chariton Valley Long Distance (CVLD), Chariton Valley Telecom Corporation (TCOM), Chariton Valley Communications Corporation (CVCC) and CVTC.

##### Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

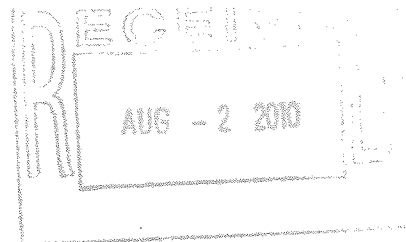
USAC management directs the Carrier to implement internal controls necessary to review and reconcile source documentation and reported USF data prior to their submittal, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover \$225,332 of High Cost Loop support and \$79,321 of Interstate Common Line Support.

This concludes the USAC management response to the audit.



Universal Service Administrative Company



High Cost and Low Income Division

Certified Mail, Return Receipt Requested

July 28, 2010

RE: Results of the Follow-Up Audit to the 2008-2009 Federal Communications  
Commission (FCC) Office of the Inspector General (OIG) Audit

Dear Beneficiary:

Enclosed are the finalized report from, and the USAC High Cost Management Response to, the follow-up audit to your FCC OIG audit. Included in the High Cost Management Response may be directives required for the closure of audit findings and/or comments. Please complete any such follow-up measures and provide documentation of corrective actions to USAC High Cost within 60 days of receipt of this letter, if applicable.

As is the case with any administrative decision made by USAC, you have the right to appeal findings and/or comments within the audit and High Cost Management Response. You may appeal to USAC or the FCC, and the appeal must be filed within 60 days of receipt of this letter. Additional information about the appeals process may be found at <http://www.usac.org/hc/about/filing-appeals.aspx>.

If you have any questions, please contact the High Cost Program at 202-776-0200 or [hcaudits@usac.org](mailto:hcaudits@usac.org). Please direct all High Cost audit correspondence to either the e-mail address above or:

USAC  
Attn: HC Audits  
2000 L Street, NW  
Suite 200  
Washington, DC 20036

Sincerely,

*High Cost Program Management*

Enclosure: Final Audit Report



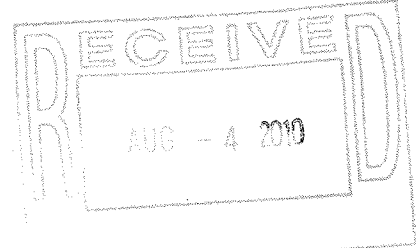
Universal Service Administrative Company

## High Cost and Low Income Division

By Certified Mail, Return Receipt Requested

July 30, 2010

Tina Jordan  
Director of Finance  
Chariton Valley Telephone  
1213 East Briggs Drive  
Macon, MO 63552



Re: Action to be Taken Resulting from High Cost Audit of Chariton Valley Telephone (SAC 421864)  
Audit Report HC-FL-121, Follow-up Audit to HC-2008-206

Dear Tina Jordan:

A follow-up audit of Chariton Valley Telephone for Study Area Code (SAC) 421864 was conducted on behalf of the USAC Internal Audit Division (IAD) and the Federal Communications Commission (FCC) Office of Inspector General (OIG) for the period July 1, 2007 through June 30, 2008. The final report from that follow-up was sent to the company on July 28, 2010.

As is USAC's policy with adverse or disclaimer opinions, the follow-up audit was required to quantify the monetary effect of audit HC-2008-206 conducted by Grant Thornton. The effect quantified will result in a recovery of \$304,653 of High Cost Loop support for SAC 421864. Please refer to the audit report for details on the funds being recovered. USAC will recover these funds from your October 2010 High Cost support payment, which will be disbursed at the end of November 2010.

Consistent with current administrative practice, if the recovery amount exceeds the company's disbursement for that month, USAC will continue to offset the remaining recovery amount balance against subsequent High Cost support disbursements until such time as the full amount is recovered. If necessary, USAC reserves the right to invoice and collect any remaining amounts owed.

As is the case with any decision of the USF administrator, you have the right to appeal this decision directly to the FCC pursuant to 47 C.F.R. § 54.719. The appeal must be filed within 60 days of the date of this letter as required by 47 C.F.R. § 54.720(a) and must conform to the filing requirements of 47 C.F.R. § 54.721. Additional information about the FCC appeals process may be found at <http://www.usac.org/hc/about/filing-appeals.aspx> under "OPTION B."

Sincerely,

Craig Davis  
Director, High Cost